

**AKITA**  
2007 Annual Report





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## Forward Looking Statements

From time to time Akita Drilling Ltd. ("AKITA" or the "Company") makes written and verbal forward-looking statements. These forward-looking statements include but are not limited to comments with respect to our objectives and strategies, financial condition, the results of our operations and our business, our outlook for our industry and our risk management discussion. Forward looking statements are typically identified with words such as "believe", "expect", "forecast", "anticipate", "intend", "estimate", "plan" and "project" and similar expressions of future or conditional events such as "will", "may", "should", "could" or "would".

By their nature these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not be achieved. We caution readers of this Annual Report not to place undue reliance on these forward-looking statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements may be influenced by the following factors: the level of exploration and development activity carried on by AKITA's customers, world oil and North American natural gas prices, weather, access to capital markets and government policies. We caution that the foregoing list of important factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors as well as other uncertainties and events.

Additional information about these and other factors can be found under the "Business Risks and Risk Management" section of the Management's Discussion and Analysis section of this 2007 Annual Report for AKITA.

## Annual Meeting

The Annual General Meeting of Shareholders will be held at 10:00 a.m. M.D.T. on Monday May 5, 2008 at the Westin Hotel, 320 - 4<sup>th</sup> Avenue S.W., Calgary, Alberta. Shareholders and other interested parties are encouraged to attend.





# Corporate Profile

**A**KITA Drilling Ltd. is a premier oil and gas drilling contractor with drilling and well servicing operations throughout Western Canada, New Brunswick, Canada's Northern Territories and the North Slope of Alaska. The Company strives to be the industry leader in matters of customer relations, employee expertise, safety, equipment quality and drilling performance. In addition to conventional drilling and well services, the Company specializes in purpose-built arctic and heavy oil pad drilling rigs and is active in directional, horizontal and underbalanced drilling providing specialized drilling services to a broad range of independent and multinational oil and gas companies. AKITA currently employs at full operations approximately 800 people. The Company has ownership in 42 drilling rigs in all depth ranges. In addition, the Company operates three well service rigs in Western Canada.

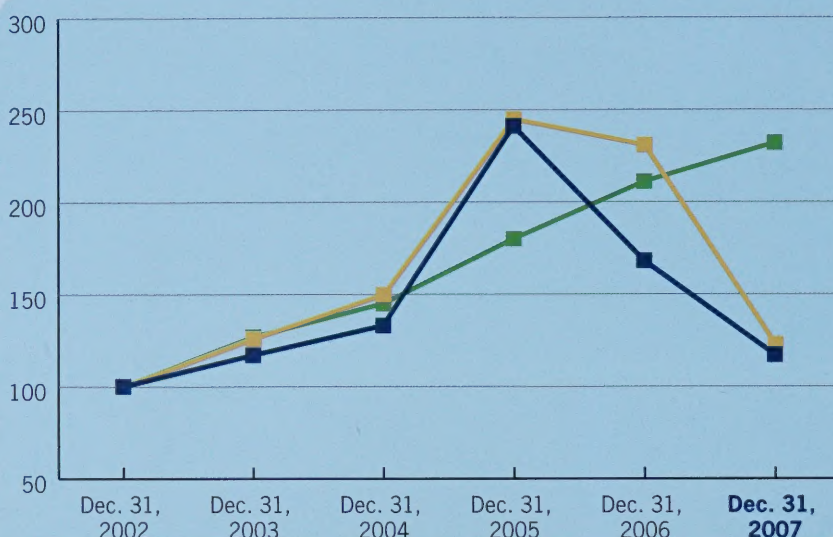
Cover and Inside Front  
Cover: Rigs 29 and 46  
drilling for heavy oil near  
Tucker Lake in N.E. Alberta



# Share Performance

The graph to the right compares the cumulative return over the last five years on the Class A Non-Voting shares and Class B Common shares of the Company from December 31, 2002 with the cumulative total return of the S&P/TSX Composite Stock Index over the same period, assuming reinvestment of dividends.

Five Year Total Return on \$100 Investment



AKITA Class A	100	117	133	241	168	117
AKITA Class B	100	126	150	245	231	123
S&P/TSX Composite Index	100	127	145	180	211	232

## Share Performance

All references to weighted average number of Class A Non-Voting and Class B Common shares outstanding, shares traded, prices per share and dividends per share have been retroactively restated to reflect the Company's two-for-one share split implemented on June 8, 2005.

		2003	2004	2005	2006	2007
Weighted average number of Class A and Class B shares		18,178,342	18,103,392	18,591,334	18,491,237	18,275,846
Market Prices for Class A Shares	High	\$ 12.33	\$ 13.75	\$ 24.20	\$ 26.35	\$ 18.90
	Low	\$ 9.38	\$ 11.80	\$ 13.18	\$ 16.20	\$ 9.51
	Close	\$ 12.08	\$ 13.49	\$ 24.20	\$ 16.65	\$ 11.39
Volume		2,987,662	4,473,998	4,053,605	4,522,599	4,377,762
Market Prices for Class B Shares	High	\$ 13.00	\$ 15.50	\$ 29.00	\$ 28.52	\$ 21.50
	Low	\$ 9.35	\$ 12.30	\$ 14.75	\$ 21.50	\$ 11.01
	Close	\$ 12.13	\$ 14.25	\$ 23.00	\$ 21.50	\$ 11.25
Volume		15,902	11,914	12,854	13,362	13,135

## Dividend History

AKITA began paying dividends to shareholders in 1996. It is the current intention of the Board of Directors to continue to pay quarterly dividends in the future. Nevertheless, the payment of any dividend is at the discretion of the Board of Directors and depends upon the financial condition of the Company and other factors.

	2003	2004	2005	2006	2007
Dividends paid per share (\$)	0.18	0.20	0.225	0.24	0.28

# Letter to the Shareowners

Earnings for the year ended December 31, 2007 were \$20,752,000 or \$1.14 per share on revenue of \$142,945,000. Comparative figures for 2006 were \$33,755,000 or \$1.83 per share on revenue of \$174,543,000. Funds flow from operations for the current year was \$36,992,000 as compared to \$47,199,000 in 2006.



Linda A. Heathcott  
Chairman of the Board



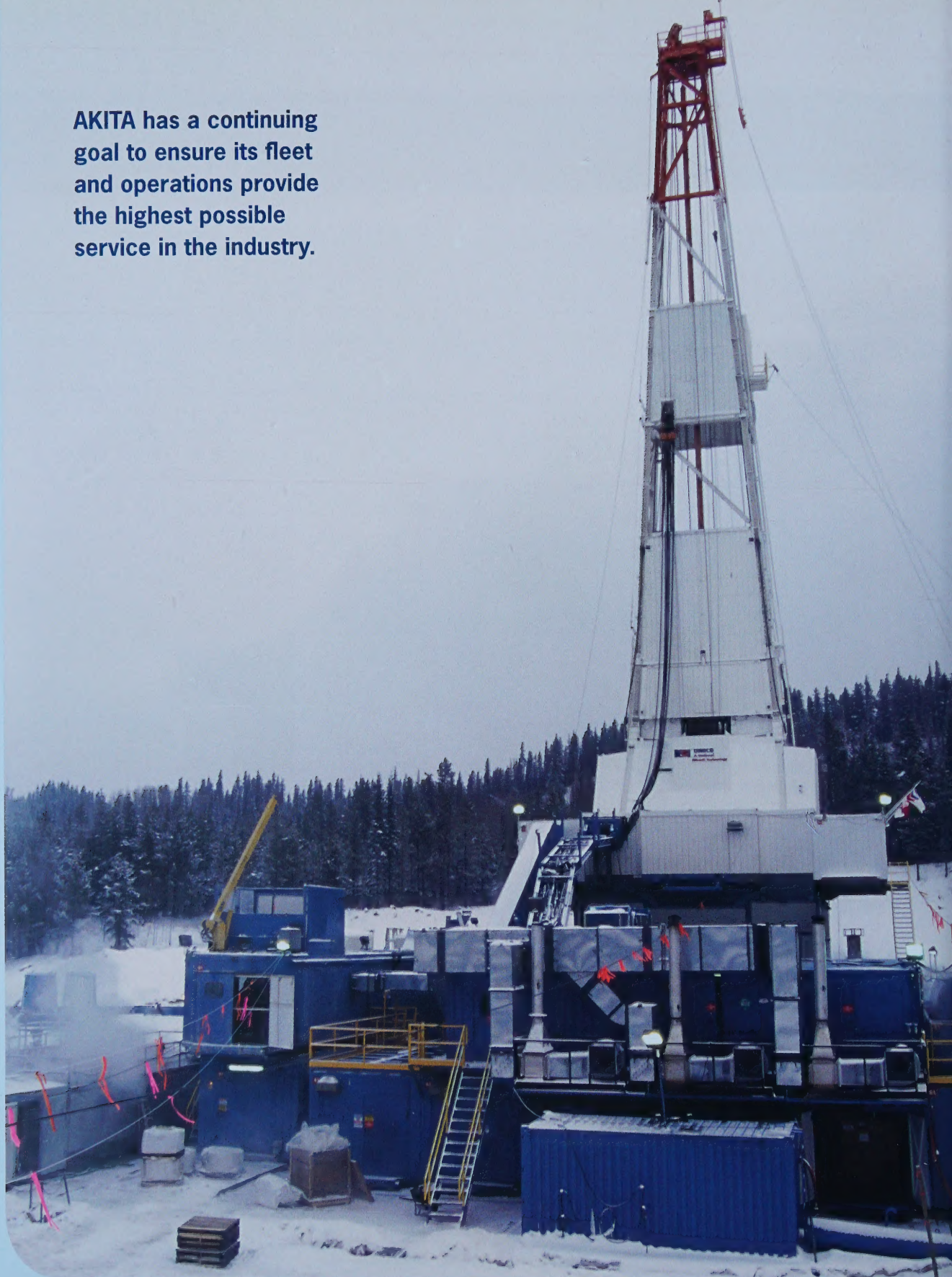
John B. Hlavka  
Chief Executive Officer

Overall, 2007 was the weakest year in terms of rig utilization rates for the Canadian drilling industry since 2002 and AKITA's results were affected by that weakness. The Company's rig utilization in 2007 was 40.9% compared to the industry average of 37.0% and AKITA's utilization of 56.6% in 2006. AKITA faced the challenges posed by this weaker market by relying on its key strengths – the operation of quality equipment by highly skilled employees, a commitment to customer satisfaction including the servicing of key term contracts and the benefit of significant exposure to heavy oil drilling including pad style heavy oil drilling. Although the rig utilization for AKITA was the lowest encountered by the Company since its inception 15 years ago, 2007 earnings were still greater than levels achieved in 1993 through 2003, while funds flow from operations was the third highest in the history of the Company.

AKITA participates in all major drilling market segments in Western Canada as well as in Canada's Northern Territories, New Brunswick and Alaska. The Company maintains a diverse fleet of rigs that includes 12 singles, 15 doubles and 15 triples. Although many of the rigs in AKITA's fleet have capacities that most closely align to natural gas drilling, the Company has increased its leverage to the oil market and now operates five heavy oil pad rigs. This rig fleet diversity helps ensure AKITA's continuing activity even during periods when particular elements of the drilling cycle, such as natural gas drilling, are out of general favour with AKITA's customers. In turn, the currently higher oil drilling activity level helps to ensure that AKITA retains a core of qualified personnel.



**AKITA has a continuing goal to ensure its fleet and operations provide the highest possible service in the industry.**





During 2007, AKITA deployed three new drilling rigs into the market. The first rig was a 1,200 metre single that incorporated several features that were new to AKITA's fleet, but which will be incorporated into any additional rigs that the Company may add in the future in a similar depth capacity. Although operations for this rig are not governed under a long-term contract arrangement, it was able to generate 29% more operating days than the average AKITA rig in its depth range.

In addition to the new concept single rig noted above, AKITA completed the construction of two new 3,000 metre pad-style drilling rigs suitable for drilling heavy oil. The first pad-style drilling rig commenced its multiyear term contract midway through the second quarter, while the other pad-style drilling rig, which does not have a term contract associated with it, commenced drilling operations in late August.

In light of current weaker market conditions, the Company does not have immediate plans to increase its fleet size. AKITA remains poised, with the financial and other resources it has at its disposal, to respond to market opportunities, as they arise. At December 31, 2007 the Company had \$49 Million in working capital, including \$43 Million of cash and no long-term debt.

For the second year in a row, AKITA benefited from a reduction in future income taxes as a result of government announcements for future income tax rates. The positive impact to earnings was \$2,099,000 in 2007 compared to \$1,943,000 in 2006.

Attention to safety training has continually earned the Company one of the lowest accident frequencies in the industry. The 2007 lost time accident frequency of 0.25 per 200,000 hours worked was the best performance in AKITA's history. This surpasses the industry average of 1.07 (preliminary estimate provided by the Canadian Association of Oilwell Drilling Contractors). The Company has consistently received awards for its safety performance. Managers, employees and subcontractors are all required to understand and accept their responsibility for maintaining a safe working environment. The Company dedicates significant resources to ensure that employees receive extensive

training required to operate safely and efficiently.

In October, 2007, the Canadian Association of Oilwell Drilling Contractors prepared an industry drilling forecast for 2008 that estimated 13,735 wells will be drilled compared to 19,144 wells actually drilled in 2007. This estimate was based upon commodity price assumptions of US \$80 per barrel for oil and US \$7.25 per mcf for natural gas. To date, commodity prices for both oil and natural gas have exceeded these forecast prices.

Management does not anticipate a significant improvement in market conditions for its rigs until the price of natural gas in North America is sustained at a higher level. Despite recent record prices for oil, the cumulative effects of low natural gas prices, tax changes for income trusts and higher provincial royalty rates in Alberta have suppressed drilling activity levels for the balance of the current winter drilling season and probably into the upcoming spring and summer. AKITA has demonstrated its ability to compete effectively in weaker markets and will continue to do so.

We would like to express our appreciation for the support of our shareowners in these difficult market conditions. The Company also appreciates the continuing support of its customers as well as the reliability of its many suppliers. To these groups we express our sincere thanks. Of course, much of the credit for AKITA's success lies with our dedicated employees, to whom we offer congratulations for a job well done. Finally, we wish to acknowledge the contribution of our directors whose wise counsel and guidance have helped to maintain a strong and successful Company.

Retiring this year are two members of the Board of Directors who have been with us for a combined total of 19 years. Marg Southern has been an outstanding director and advisor to AKITA's leaders since the inception of the Company and always showed an uncompromising enthusiasm to support every quality-driven initiative undertaken by AKITA. Bill Horton has been an active director since 2004 and provided a great sense of acumen, experience and judgement in chairing AKITA's Audit Committee. Although both Mrs. Southern's and Mr. Horton's leadership will be sincerely missed by all, AKITA remains well positioned to meet the ever changing demands of its business.

On behalf of the Board of Directors.



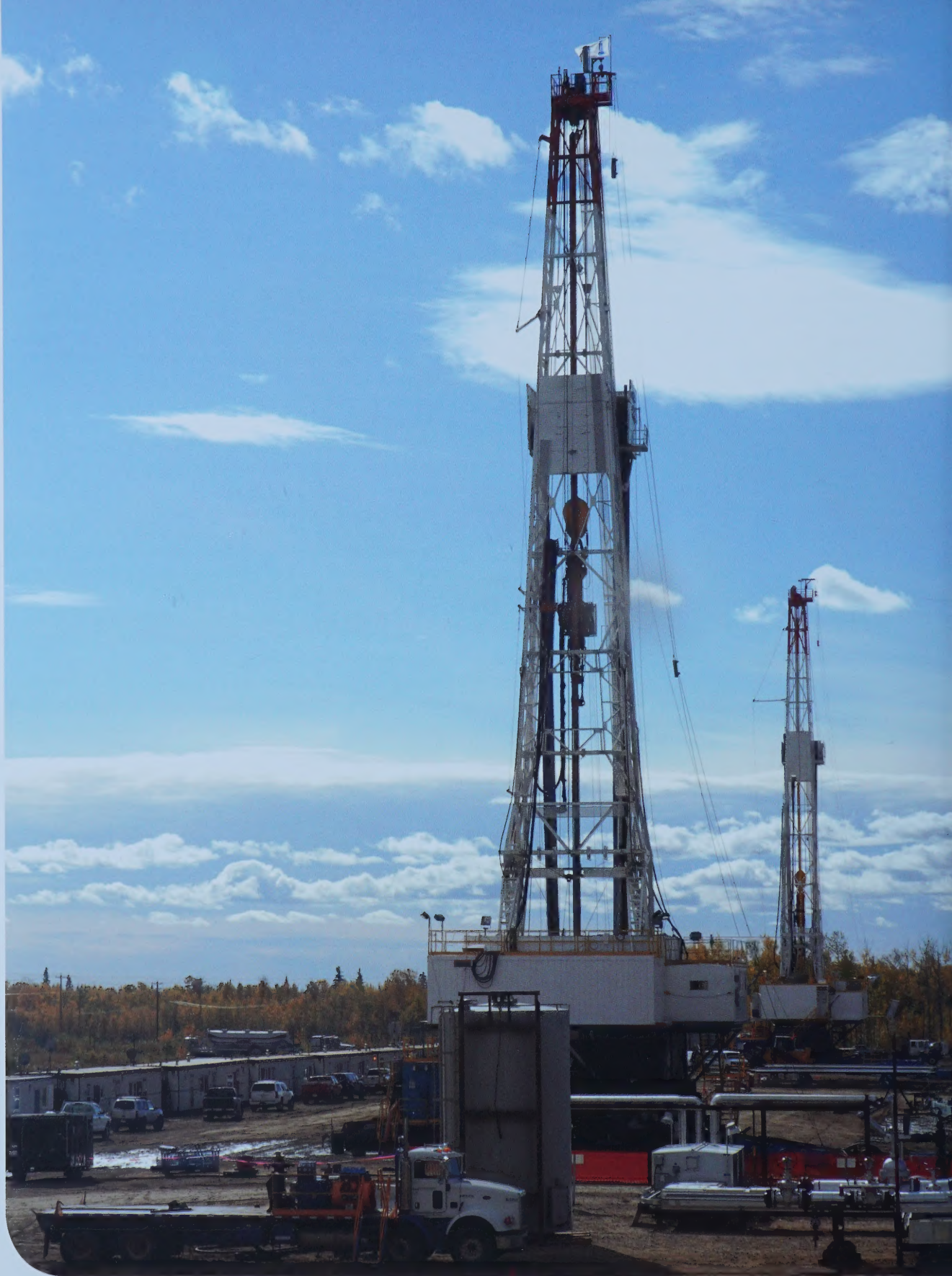
Linda A. Heathcott  
Chairman of the Board



John B. Hlavka  
Chief Executive Officer

March 20, 2008







# Heavy Oil

During 2007, the Company drilled 312 heavy oil pad wells, down from 403 in 2006. Despite the lower number of wells drilled last year compared to 2006, heavy oil drilling has become an increasingly significant sector in the Canadian industry in recent years due to the maturity of the Western Canadian Sedimentary Basin. In order to meet this developing demand, AKITA owns five specialty pad rigs including two that were completed in 2007.

Drilling heavy oil wells currently affects AKITA's operations in two important ways. First, smaller single sized rigs are employed to delineate prospective locations for further development drilling. In 2007, this represented 42% of the heavy oil wells drilled by the Company.

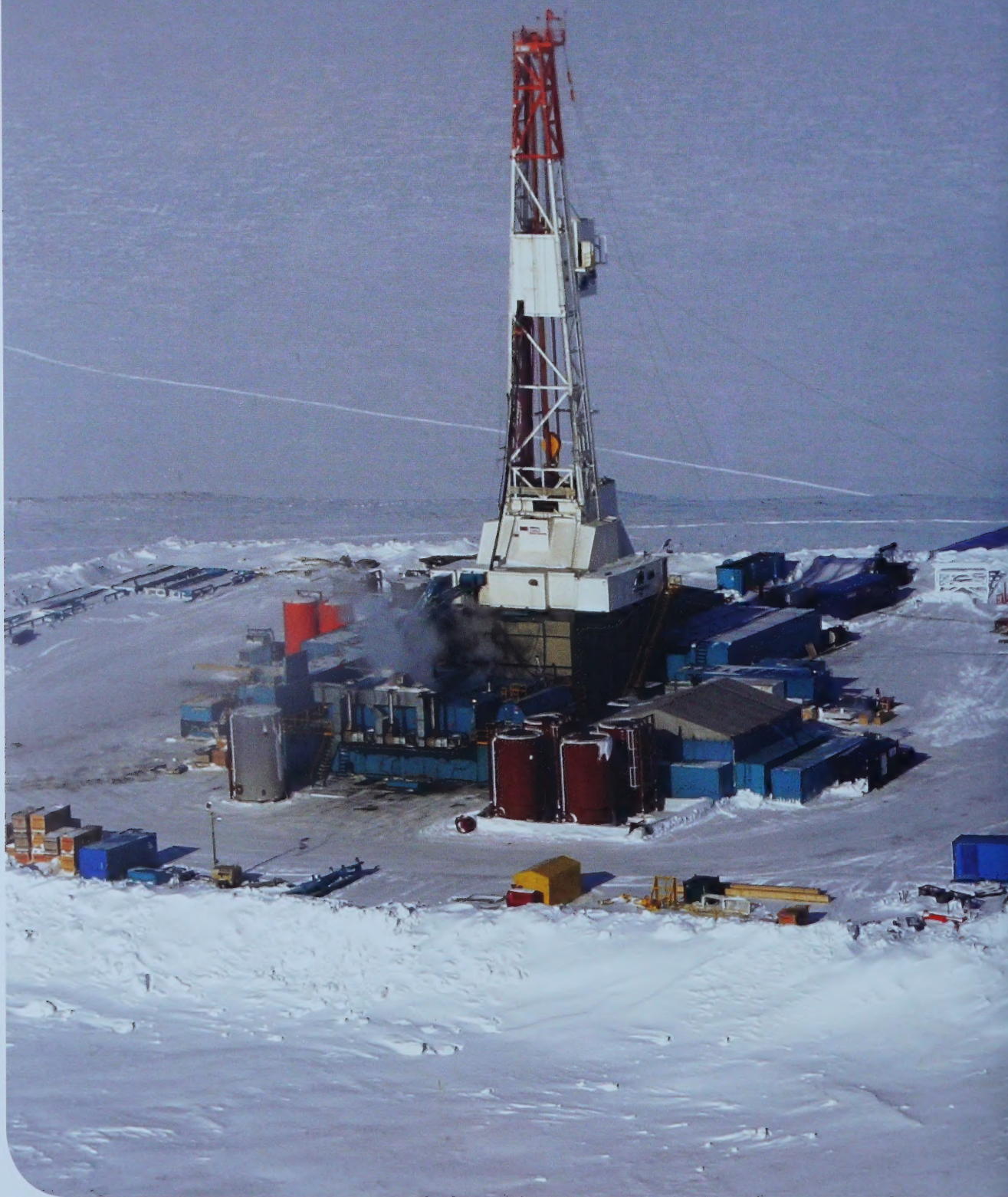
Once prospective development drilling locations have been determined, specialized self-propelled rigs are typically deployed to recover the heavy oil resource. The self-propelled nature of heavy oil pad rigs provides a significant efficiency gain for AKITA's customers compared to drilling with more conventional rig designs. In order to capitalize on the efficiency gains provided by specialty pad rigs, drilling programs typically entail drilling multiple wells in close proximity to one another. In 2007, this represented 58% of the heavy oil wells drilled by the Company.

Much of AKITA's focus with respect to heavy oil drilling has been in the development of these pad style rigs.

Although the heavy oil drilling market, like other aspects of the drilling market, is cyclically weak in respect of overall activity levels, AKITA anticipates additional longer term demand for pad rigs and is poised to meet future requirements for this market segment when they occur.

**AKITA owns five specialty self-propelled pad rigs including two that were completed in 2007.**









# Northern Operations

**AKITA has developed significant experience required to operate its seven arctic class rigs under the harshest weather conditions.**

AKITA's Northern operations are conducted through several different joint ventures, with each joint venture operating in a specific geographic region. Many of these arrangements have been in place for several years and have provided significant benefits to AKITA and its joint venture partners.

AKITA has a total of seven "arctic class" rigs in its fleet, including three rigs located in Alaska. In 2007, a total of three wells were drilled in Northern Canada, the same number as in 2006. Activity levels in Canada's north have not been sufficient to justify retaining all of the special rigs in that region in either 2006 or 2007. Consequently, five "arctic class" rigs have been deployed either to Southern Canada or to Alaska in order to augment conventional drilling opportunities in the Western Canadian Sedimentary Basin or exploration activities in Alaska.

In 2006, AKITA deployed two additional "arctic class" specialty drilling rigs to Alaska to increase its total penetration in that jurisdiction to three rigs. Unlike rigs operated by AKITA in Canada either on its own behalf or on behalf of its joint ventures, Doyon Drilling Inc. provides crews and in some cases management expertise to operate these Alaska joint venture rigs. AKITA recognizes the potential opportunity in this region and remains open to the possibility of expanding this business relationship once market conditions are appropriate.

In addition to operating drilling rigs, AKITA is developing expertise in offshore drilling through the provision of labour contracts.

Management believes that the current drilling activity level in Northern Canada constitutes a temporary slowdown in customer plans, rather than a longer-term downward trend to a potentially significant market for the Company. Should the Mackenzie Valley pipeline hearings ultimately result in construction of a pipeline, it would provide a strong stimulus to increase northern drilling activity. AKITA has been working diligently with its customers for several years to ensure that the Company will be able to continue to meet the evolving needs of its customers in the North.









## Conventional Natural Gas & Oil

**Improving efficiencies is an ongoing goal for AKITA. The design of Rig 6 includes a number of enhancements to realize this objective.**

As a result of continuing oil production decline throughout much of the Western Canadian Sedimentary Basin, natural gas exploration and development continued to dominate the industry in 2007. Although the relative ratio of gas wells to oil wells declined, there were still over two gas wells drilled in Western Canada for every oil well completed in 2007. Natural gas is often located in shallow horizons, as are typically found in southern Alberta and Saskatchewan and in deeper formations, generally associated with the foothills and some mountain regions of Alberta, British Columbia, the Northwest Territories and the Yukon Territory.

AKITA operates a well-maintained, diversified and efficient fleet of 42 drilling rigs, of which 38 were deployed in the Western Canadian Sedimentary Basin and Canada's Northern Territories. AKITA's 12 singles and 14 triples (out of 15 triples in the overall fleet) represent 67% of its Canadian drilling fleet and ensure particularly favourable exposure to natural gas drilling.

AKITA considers conventional natural gas drilling to be a core segment of its business and has constructed ten new or rebuilt rigs in the past decade that have drilling capacities that are targeted to meet this demand. In addition, the Company has ensured that all rigs in its fleet are maintained in first class condition and include all necessary equipment to perform efficiently and competitively. For example, all of AKITA's triples have top drives mounted on them in order to improve drilling efficiency.

AKITA maintains a balanced mix of rigs. Consequently, if a particular depth range is busier than other depth ranges, the Company is generally able to participate in that opportunity. In 2007, the most active depth range included medium depth capacity rigs, particularly those that were involved in pad drilling either for heavy oil or for natural gas.

Conventional oil drilling has been on a general decline over most of the past decade, as the Western Canadian Sedimentary Basin appears to be maturing. Nevertheless, AKITA continues to participate in oil drilling since it is complementary to and provides a logical diversification from natural gas activities.







# Safety and Environmental Performance

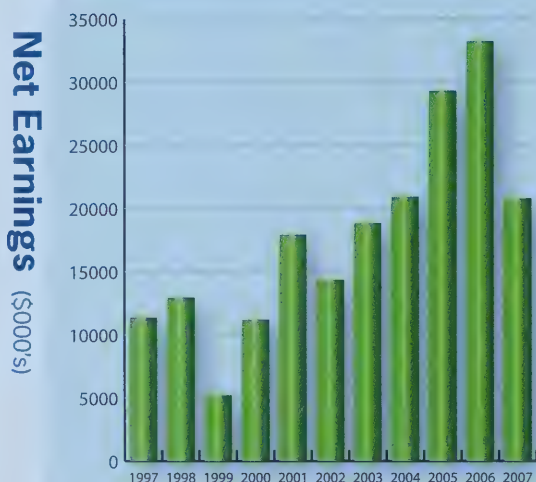
**AKITA has a comprehensive safety program that has enabled the Company to achieve and maintain one of the best safety records in the industry.**

AKITA is strongly committed to the ongoing safety of its employees. Since inception, AKITA's annual safety performance has been better than industry averages. In 2007, the Company had a lost time accident frequency of 0.25 accidents per 200,000 hours worked compared to an accident rate of 1.07 for the industry (preliminary estimate provided by the Canadian Association of Oilwell Drilling Contractors) and an accident rate of 0.46 by AKITA in 2006. The Company incorporates methods to eliminate or reduce hazards in the design of equipment as well as through the use of regularly updated standardized operating procedures. All managers, employees and subcontractors are required to understand and accept their responsibility for maintaining a safe working environment. Regularly scheduled safety meetings and an ongoing commitment to training, both on-the-job and through related courses, form the basic cornerstones of this understanding.

AKITA has a long-standing commitment to ensure that its daily operations are environmentally responsible and are in compliance with all regulatory requirements. The Company continually monitors products used and procedures followed in its operations, as well as changes in applicable environmental regulations, to ensure responsible management of environmental issues. AKITA's Board of Directors receives regular reports regarding compliance with AKITA's comprehensive environmental management programs. AKITA's programs have been in place for many years and are continually monitored, improved upon and supplemented, as circumstances warrant.

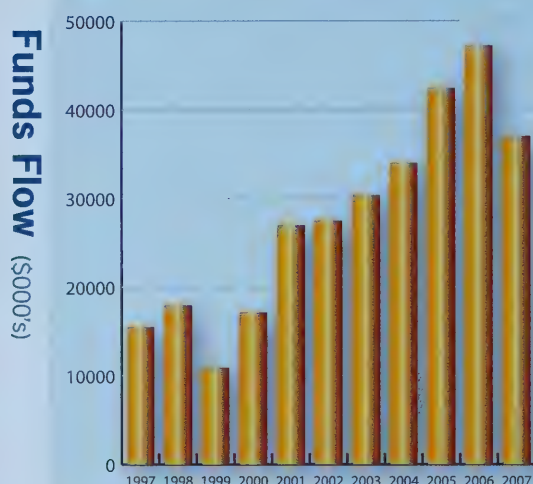


# Operational Performance



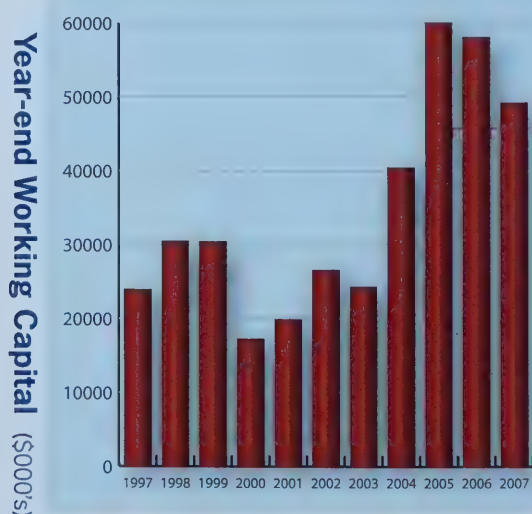
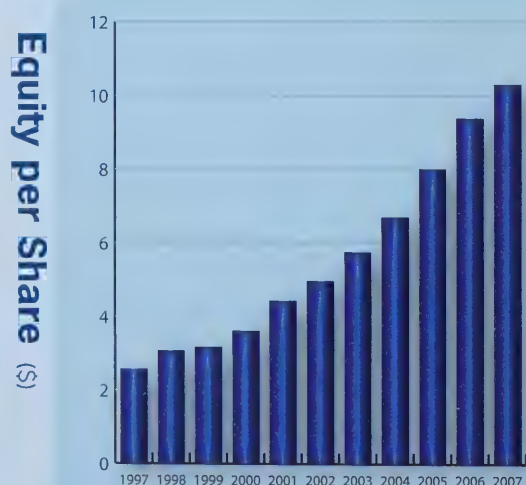
Weaker market conditions in 2007 led to lower activity in the overall drilling sector. Higher revenue rates associated with increased standby revenue and the provision of more drilling services were more than offset by increased costs associated with the provision of those services. AKITA has achieved positive earnings in each quarter of its existence.

Equity per share grew 9.8% on a one year basis, and 13.4 % compounded over the past ten years.



Funds flow from operations also declined, primarily due to weaker earnings. Ongoing funds flow has helped to reinforce the company's commitment to maintain its equipment in superior operating condition, and to capitalize on changing market opportunities.

AKITA has always maintained a significant liquidity position. The 2007 year-end working capital balance of \$49,123,000 gives great flexibility in its ability to manage its financial affairs.





# Management's Discussion & Analysis

The following sets out management's analysis of the consolidated financial position, consolidated funds flows and consolidated results of operations for AKITA Drilling Ltd. and its subsidiaries (collectively referred to as "AKITA" or "the Company") for the years ended December 31, 2007 and 2006. The information included in this MD&A is intended to assist readers in analysing the financial affairs of the Company. In addition to the information in this section, AKITA's audited financial statements for 2007 and 2006, including the notes thereto, found on pages 33 to 44, provide information on the Company's financial position, funds flows and results of its operations. The information in this MD&A was approved by AKITA's Board of Directors on March 20, 2008 and incorporates all relevant considerations to that date. All amounts are reported in Canadian dollars.

## Revenue and Operating & Maintenance Expenses

\$Million	2007	2006	Change	% Change
Revenue	142.9	174.5	(31.6)	(18%)

Revenue decreased to \$142,945,000 in 2007 from \$174,543,000 in 2006 as a result of lower activity in the drilling sector. Revenue per operating day increased to \$23,285 during 2007 from \$22,046 per operating day in 2006 mainly as a result of additional standby revenue combined with the provision of more drilling services as well as a shift by AKITA's customers away from the single sized rig market. Operating and maintenance costs are tied to activity levels and amounted to \$85,108,000 or \$13,863 per operating day during 2007 compared to \$99,970,000 or \$12,627 per operating day for the prior year. This increase in operating and maintenance costs was influenced by the provision of additional services noted above. As a consequence of having higher revenue and operating and maintenance expense per day, the overall profit margin (the difference between revenue per day and operating and maintenance costs per day) remained virtually constant at \$9,421 per day (2006 - \$9,419 per day).

The Company's operations are within the contract drilling and well servicing segment and are conducted in Western Canada, New Brunswick, the Northwest Territories, Yukon Territory and Alaska.

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. Work in progress on daywork contracts is measured based upon the passage of time in accordance with the terms of the contracts. Daywork contracts represented 100% of all revenue generated in 2007 (2006 - 99%). All contracts being performed at the year-end dates of December 31, 2007 and December 31, 2006 were performed on a daywork basis. No losses were anticipated at either of these year-end dates and accordingly no losses have been provided for.

At December 31, 2007, AKITA had 39 drilling rigs under management in Canada (35.575 rigs net). In addition, the Company had a 50% interest in three drilling rigs in Alaska. Consequently, at December 31, 2007, AKITA's drilling rig fleet stood at 42 rigs (37.075 rigs net), three more than at the end of 2006



(2 rigs net). The Company also has three well servicing rigs (1.5 rigs net) under management. AKITA provided drilling services to 66 customers in 2007 (2006 - 75 customers), including two customers that each provided more than 10% of AKITA's revenue for the year (2006 - three customers).

### Depreciation Expense

\$Million	2007	2006	Change	% Change
Depreciation Expense	15.4	14.2	1.2	8%

AKITA depreciates its drilling rigs using the units of production method. Most of these drilling rigs are depreciated based on an estimated service life of 2,000 operating days per drilling rig, although the Company records depreciation on five of its deep drilling rigs over an estimated service life of 3,600 operating days per drilling rig. Unlike other drilling rigs in AKITA's fleet, in particular those that were already owned by AKITA when it became a public company in 1993, the drilling rigs depreciated over 3,600 operating days were newly constructed and are subject to fewer moves than the smaller sized drilling rigs in AKITA's fleet. The increase in depreciation expense to \$15,403,000 during 2007, from \$14,211,000 during 2006, was mostly attributable to the higher average cost base of AKITA's rigs due to the addition of new rigs. Management assesses the estimated remaining life of its rigs annually. Assets other than drilling rigs are depreciated over their estimated remaining lives using a straight line or declining balance basis of calculation. Drilling rig depreciation accounted for 73% of total depreciation expense in 2007 (2006 - 74%).

### Selling and Administrative Expenses

\$Million	2007	2006	Change	% Change
Selling and Administrative Expenses	15.8	15.2	0.6	4%

Selling and administrative expenses increased to \$15,774,000 in 2007 from \$15,187,000 in 2006. Selling and administrative expenses equated to 11.0% of total revenue in 2007, compared to 8.7% of total revenue in 2006 largely as a result of decreased revenue in the current year. The single largest component was salaries and benefits, which accounted for 58% of these expenses (62% in 2006). The most significant change in the current year was the decrease in discretionary labour costs. The year over year increase in selling and administrative costs is attributable to general inflationary cost pressures experienced throughout most major expense categories.

### Other Income (Expense)

\$Million	2007	2006	Change	% Change
Interest Income	1.4	1.9	(0.5)	(26%)
Gain on Sale of Joint Venture Interests in Rigs and Other Assets	0.9	1.0	(0.1)	(10%)
Loss on Foreign Currency Translation	(0.8)	0.0	(0.8)	N/A
Other Income (Expense)	1.5	2.9	(1.4)	(48%)



The Company invests any cash balances in excess of its ongoing operating requirements in bank guaranteed highly liquid investments. Interest income decreased to \$1,392,000 in 2007, compared to \$1,937,000 in 2006 as a result of lower cash balances, primarily as a result of investing in AKITA's rig construction program.

The gain on sale of joint venture interests in rigs and other assets totalled \$902,000 in 2007 compared to \$1,057,000 in the previous year.

As a result of the continuing appreciation of the Canadian dollar vis-à-vis the United States dollar throughout most of 2007, the Company recorded a loss from foreign currency translation of \$814,000 from its Alaskan operations compared to a loss of \$40,000 in 2006.

### Income Tax Expense

\$Million	2007	2006	Change	% Change
Current Tax	<b>6.3</b>	14.6	(8.3)	(57%)
Future Tax	<b>1.0</b>	(0.2)	1.2	N/A
Total Income Taxes	<b>7.3</b>	14.4	(7.1)	(49%)

The Company records income taxes using the liability method, thereby recording future income taxes based upon the differences between the financial reporting and income tax bases of assets and liabilities measured using tax rates that are substantively enacted to be in effect when the differences are expected to reverse. Total income tax expense decreased to \$7,388,000 in 2007 from \$14,374,000 in 2006. Current income tax expense decreased due to lower pre-tax earnings. Future income taxes declined \$2,099,000 in 2007 (2006 - \$1,943,000) as a result of announcements of tax rate reductions by various taxing authorities that will become effective over the next few years. Additionally, in 2007, the Company recorded a higher proportion of tax expense as future tax expense as a result of recent additions to AKITA's rig fleet.

### Net Earnings and Funds Flow

\$Million	2007	2006	Change	% Change
Net Earnings	<b>20.8</b>	33.8	(13.0)	(38%)
Funds Flow From Operations	<b>37.0</b>	47.2	(10.2)	(22%)

Net earnings decreased to \$20,752,000 or \$1.14 per Class A Non-Voting Share and Class B Common Share (diluted - \$1.13) for 2007 from \$33,755,000 or \$1.83 per share (diluted - \$1.81) in 2006. Funds flow from operations decreased to \$36,992,000 in 2007 from \$47,199,000 in 2006.

Current year results were negatively affected primarily by weaker market conditions. To some extent, wet weather, which was more prevalent in the second quarter of 2007 than during the corresponding period in 2006, was also a factor in weaker financial performance for AKITA in 2007. Wet weather results in more down time waiting for roads and land leases to dry sufficiently to enable the movement of heavy equipment. Both 2007 and 2006 results were also positively impacted through reductions in future income taxes.



## Funds Flow from Operations

Funds flow from operations is not a recognized measure under generally accepted accounting principles (GAAP). AKITA's method of determining funds flow from operations may differ from methods used by other companies and involves including operating cash flow before working capital changes. Management and certain investors may find funds flow from operations to be a useful measurement to evaluate the Company's operating results at year-end and within each year since the seasonal nature of the business affects the comparability of non-cash working capital changes both between and within periods.

## Earnings per Share

Basic earnings per share have been calculated on the basis of the weighted average number of Class A Non-Voting Shares and Class B Common Shares outstanding during the year. Diluted earnings per share have been calculated using the treasury stock method. Under the treasury stock method, the dilutive effect of outstanding stock options is included in the weighted average number of shares. Proceeds that would have been received on exercise of stock options are used to buy back shares at the weighted average market price experienced during the year. The weighted average number of shares is then reduced by the number of shares acquired.

## Rigs and Utilization

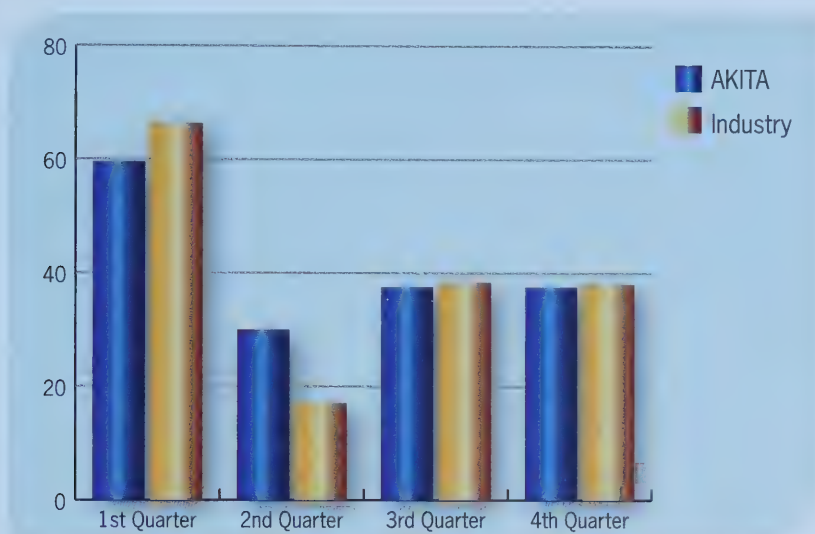
Utilization rates are a key statistic for the drilling industry since they measure sales volume and influence pricing. During 2007, AKITA's utilization rate was 41%, which was 16 percentage points lower than the previous year and 4 percentage points higher than the 2007 industry average. A general drilling industry slowdown that coincided with a general reduction in natural gas prices had an adverse effect on rig utilization.

In addition to depth capacity, the number of rigs located in the North influences AKITA's utilization. This geographic sector is quite diverse but generally results in shorter drilling seasons than exist for southern locations. In some cases, AKITA receives standby revenue to help offset the higher amount of down-time involved in operating in Northern Canada and Alaska. During 2006, AKITA relocated one drilling rig from Alberta to Alaska as a result of market conditions, resulting in three rigs being located in Alaska in addition to two rigs located in Northern Canada. The rig relocated to Alaska in 2006 remains there.

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2007, AKITA had nine rigs with contracts that extend into 2008 or beyond. Of these contracts, three are anticipated to expire in 2008, two in 2009, three in 2010 and the remaining one in 2011.



The following graph illustrates AKITA's 2007 drilling utilization rates compared to the industry average:



Note:  
 (1) Drilling utilization rates are average rates based upon the number of days in a year a rig is operating under contract, excluding move days.  
 Source: Canadian Association of Oilwell Drilling Contractors (CAODC)

The drilling and well servicing industry is seasonal with activity building in the fall and peaking during the winter months as northern transportation routes become available when areas with muskeg conditions freeze sufficiently to allow the movement of rigs and other heavy equipment. The peak drilling and well servicing season ends with “spring break-up”, at which time drilling and well servicing operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land.

In addition to traditional seasonal impacts, the business of AKITA could be affected in two important ways as a result of warmer than normal temperatures. First, increases in overall temperatures would have the effect of shortening the winter drilling season, especially in remote and northern locations. The most dramatic impacts of warmer than normal temperatures on the Company have been noted in Northern Canada, where the typical drilling season has shortened. As a result, it has been common for the Company to work with its customers and suppliers in regions such as the Mackenzie Delta, to locate certain key pieces of equipment in “staging areas” during the summer to reduce the overall winter moving distances. Another impact of warmer than normal temperatures on AKITA is related to a reduced demand for natural gas for heating. To the extent that this impacts the commodity price for natural gas, AKITA's customers might reduce natural gas drilling activity, which in turn, might reduce the demand for AKITA's services.

Competition in the Canadian drilling and well servicing industry is affected by the overall size of the drilling and well servicing fleets, in addition to the level of demand by customers of those fleets. At December 31, 2007 there were 890 drilling rigs registered with the CAODC (December 31, 2006 – 844). There were also 1,052 well servicing rigs registered with the CAODC on December 31, 2007 (December 31, 2006 – 1,007). AKITA's drilling and well servicing fleets represented 4.4% and 0.3% of the total Canadian drilling and well servicing fleets, respectively, at December 31, 2007 (December 31, 2006 – 4.6% and 0.3%, respectively).



Changes in the level of operations have a corresponding impact on financial results. The following table shows the quarterly impact on AKITA's operations for the past three years:

<b>Three Months Ended</b> (Dollars in thousands, except per share • Unaudited)				
	Mar. 31	June 30	Sept. 30	Dec. 31
<b>2007</b>				
<b>Revenue</b>	<b>52,873</b>	<b>27,345</b>	<b>29,964</b>	<b>32,763</b>
<b>Net Earnings</b>	<b>9,087</b>	<b>3,091</b>	<b>2,196</b>	<b>6,378</b>
<b>Basic Earnings per share</b>	<b>0.50</b>	<b>0.17</b>	<b>0.12</b>	<b>0.35</b>
<b>Diluted Earnings per share</b>	<b>0.50</b>	<b>0.16</b>	<b>0.12</b>	<b>0.35</b>
<b>Funds flow from operations</b>	<b>15,630</b>	<b>6,053</b>	<b>6,120</b>	<b>9,189</b>
<b>2006</b>				
Revenue	61,195	32,929	38,856	41,563
Net Earnings	11,002	7,548	6,850	8,355
Basic Earnings per share	0.59	0.41	0.37	0.46
Diluted Earnings per share	0.59	0.40	0.37	0.45
Funds flow from operations	16,519	8,758	10,389	11,533
<b>2005</b>				
Revenue	49,889	24,840	40,740	46,641
Net Earnings	8,685	3,895	7,108	9,576
Basic Earnings per share	0.47	0.21	0.38	0.51
Diluted Earnings per share	0.46	0.21	0.38	0.51
Funds flow from operations	13,531	5,984	10,319	12,587

During the fourth quarter of 2007, rig activity for the Company included 1,450 operating days compared to 1,814 operating days during the corresponding period in 2006. Weaker demand for drilling rigs in the fourth quarter of 2007 was directly responsible for the achievement of fewer operating days vis-à-vis the corresponding period in 2006. In addition to lower overall activity levels in the fourth quarter of 2007 compared to the corresponding period in 2006, revenue rates in the fourth quarter of the current year were lower than in 2006 and equated to \$22,595 per operating day in the fourth quarter of 2007 versus \$22,912 in the fourth quarter of 2006. Fourth quarter 2007 results did benefit, however, from recording a future tax reduction of \$2,099,000 as a consequence of rate reductions announced by the federal government. Nevertheless, earnings, earnings per share and funds flow from operations were all lower than for the fourth quarter of 2006. Overall liquidity decreased at December 31, 2007 compared to the corresponding 2006 year-end date by \$2,558,000 as measured in terms of overall working capital. Year over year working capital decreased primarily as a result of the overall level of capital expenditures during the year as well as a recognition of \$5 Million in restricted cash as a non-current asset. Included in the overall working capital reduction was a decline in AKITA's cash balance at the end of 2007 to \$43,166,000 (2006 - \$49,927,000).

The following table highlights AKITA's annual financial results for the last three years:

<b>Three Year Summary</b> (Dollars in thousands, except per share) (Unaudited)	<b>2007</b>	2006	2005
Revenue	<b>142,945</b>	174,543	162,110
Net Earnings	<b>20,752</b>	33,755	29,264
Basic Earnings per share	<b>1.14</b>	1.83	1.57
Diluted Earnings per share	<b>1.13</b>	1.81	1.56
Dividends per Class A Non-Voting and Class B Common Share	<b>0.28</b>	0.24	0.225
Funds flow from operations	<b>36,992</b>	47,199	42,421
Working capital	<b>49,123</b>	56,681	59,499
Other long-term liabilities	<b>18,664</b>	17,383	17,302
Shareholders' equity	<b>188,038</b>	172,873	148,366
Total Assets	<b>223,522</b>	222,237	199,852

## Liquidity and Capital Resources

AKITA has typically generated sufficient funds flow from operations to fund its normal operating activities as well as capital expenditures. In years in which no new rigs are built under contract and occasionally in years when new rigs are added to the fleet, the Company typically restricts capital expenditures to less than 50% of funds flow from operations. In 2007, AKITA's net capital expenditure program of \$40,948,000 represented 111% of funds flow from operations and included the cost to complete the construction of two new heavy oil pad rigs, in addition to other routine capital expenditures.

At December 31, 2007, AKITA had \$49,123,000 in working capital including \$43,166,000 in cash, compared to \$56,681,000 in working capital, including \$49,927,000 in cash, for the previous year. In 2007, AKITA generated \$36,992,000 in funds from operations. Cash was also generated through proceeds on sales of joint venture rigs and other assets (\$7,443,000). During the same period, cash was used for capital expenditures (\$40,948,000), payment of dividends (\$5,117,000), restricted for loan guarantees (\$5,000,000) and repurchasing share capital (\$928,000). As well, non-cash working capital increased by \$797,000 during the year.

AKITA's bank operating line is unchanged at \$10,000,000 from the prior year. Interest is payable on the operating line at prime interest rates and is secured by accounts receivable. The total amount of available financing varies with receivable balances. No loan was outstanding at either December 31, 2007 or December 31, 2006.

The Company has a renewable borrowing facility of up to \$20,000,000 bearing interest at bank prime. To date, the Company has not drawn upon this facility. Security for this facility consists of a general security agreement providing for a fixed charge on certain assets, promissory notes and an assignment of insurance proceeds on certain capital assets.

During 2007, the Company repurchased 55,300 Class A Non-Voting Shares at an average price of \$16.79 pursuant to its Normal Course Issuer Bid.



In 2004, AKITA relocated and entered into a lease for its head office. In 2007, the cost for this lease was \$412,000. The lease expires on December 31, 2009.

The following table provides a summary of contractual obligations for the Company:

<b>Contractual Obligations</b> (\$000's)	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Operating Leases	<b>824</b>	412	412	Nil	Nil
Purchase obligations	<b>1,323</b>	325	661	337	Nil
Pension obligations	<b>3,609</b>	15	Note	Note	Note
Total contractual obligations	<b>5,756</b>	752	1,073	337	Nil

Note: Timing of pension payments is dependent upon retirement dates for respective employees. The cost from year one to three ranges from \$45,000 to \$889,000, from year four to five ranges from \$30,000 to \$675,000 with the balance being due after five years in any event.

### Financial Instruments

The Company's financial assets and liabilities include cash, accounts receivable, restricted cash and accounts payable. During the year, the Company did not hold or issue any derivative financial instruments. Fair values approximate carrying values unless otherwise stated.

Management considers the credit risk associated with accounts receivable to be generally low as substantially all counterparties are well established and financed oil and gas companies. AKITA has detailed credit-granting procedures and in certain situations may require customers to make advance payment prior to provision of services or take other measures to help reduce credit risk. Provisions have been estimated by management and included in the accounts to recognize bad debts.

### Off-Balance Sheet Transactions

AKITA has not entered into any arrangements that involve off-balance sheet transactions.

### Related Party Transactions

AKITA is affiliated to the ATCO Group of companies and to Spruce Meadows, an equestrian show jumping facility, through its majority shareholder. All related party transactions were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Capital purchases totalled \$339,000 and relate to the purchase of wellsite trailers (\$331,000) and other miscellaneous purchases (\$8,000). Operating purchases totalled \$652,000 and included sponsorship and advertising (\$321,000), shared employee services (\$180,000) and other miscellaneous purchases (\$151,000). In 2004 and in 2006, the Company entered into multi-year sponsorship and advertising contracts with Spruce Meadows. At December 31, 2007, the remaining commitment was \$1,323,000. Costs incurred related to this contract during 2007 were \$321,000 (2006 - \$316,000). Costs and related services are consistent with parties dealing at arms length.

## Class A and Class B Share Dividends

Per Share	2007	2006	Change	% Change
Dividends per share	<b>0.28</b>	0.24	0.04	17%

During 2007, AKITA paid dividends totalling \$0.28 per share (\$5,117,000) on its Class A Non-Voting Shares and Class B Common Shares, up from \$0.24 per share (\$4,448,000) for 2006. The payment of any dividends is at the discretion of the Board of Directors and depends upon the financial condition of AKITA and other factors. Since the inception of the quarterly dividend program, dividends have been paid in each quarter of every year. The most recent dividend was declared on February 28, 2008 with a dividend rate of \$0.07 per share.

## Class A Non-Voting and Class B Common Shares

### Authorized

An unlimited number of Class A Non-Voting Shares  
An unlimited number of Class B Common Shares

### Issued

	Class A Non-Voting		Class B Common		Total	
	Number of Shares	Consideration (\$000's)	Number of Shares	Consideration (\$000's)	Number of Shares	Consideration (\$000's)
December 31, 2005	16,889,658	22,174	1,654,284	1,366	18,543,942	23,540
Stock options exercised	36,000	205	—	—	36,000	205
Shares repurchased	(257,400)	(305)	—	—	(257,400)	(305)
December 31, 2006	16,668,258	22,074	1,654,284	1,366	18,322,542	23,440
Shares repurchased	(55,300)	(71)	—	—	(55,300)	(71)
<b>December 31, 2007</b>	<b>16,612,958</b>	<b>22,003</b>	<b>1,654,284</b>	<b>1,366</b>	<b>18,267,242</b>	<b>23,369</b>
Exerciseable Options at Dec. 31, 2007	213,900					
Unexerciseable Options at Dec. 31, 2007	197,100					

At March 20, 2008, the Company had 16,612,958 Class A Non-Voting Shares and 1,654,284 Class B Common shares outstanding. At that date, there were also 411,000 stock options outstanding, of which 213,900 were exercisable.

## Accounting Standards

Effective January 1, 2007, the Company adopted, on a prospective basis, three new accounting sections to the CICA Handbook: Section 1530, Section 3855 and Section 3861. Section 1530 "Comprehensive Income" addresses fair value accounting and reporting and display standards for comprehensive income. Section 3855 "Financial Instruments – Recognition and Measurement" addresses when financial instruments should be measured and how measurement should occur. Section 3861 "Financial Instruments – Disclosure and Presentation" provides standards for how financial instruments should be classified on the financial statements as well as related disclosure requirements. The Company has evaluated the impact of these



new standards and the adoption of these recommendations did not have a significant impact on the Company's financial statements.

Effective January 1, 2007, the Company adopted the revised recommendations of CICA Section 1506, "Accounting Changes." The new recommendations permit voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings.

As of January 1, 2008, the Company will be required to adopt two new CICA Handbook Sections, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which will replace current Section 3861. The new standards require disclosure of the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments, and how those risks are managed. The new presentation standard essentially carries forward the current presentation requirements. The Company is evaluating the impact of these new standards on its consolidated financial statements and anticipates the main impact will be in terms of additional disclosures required.

As of January 1, 2008, the Company will be required to adopt CICA Handbook Section 1535 "Capital Disclosures", which requires entities to disclose their objectives, policies and processes for management of capital, and in addition, whether the entity has complied with any externally imposed capital requirements. The Company is evaluating the impact of this new standard on its consolidated financial statements and anticipates the main impact will be in terms of additional disclosures required.

As of January 1, 2008, the Company will be required to adopt CICA Handbook Section 1400 "Going Concern" which requires management to make an assessment of an entity's ability to continue as a going concern. The Company is evaluating the impact of this new standard on its consolidated financial statements and anticipates the main impact will be in terms of additional disclosures required.

Capital expenditures totalled \$40,948,000 in 2007. Over one half of this amount related to the cost to complete two new 3,000 metre capacity pad style rigs (\$23,941,000). Additional capital expenditures relate to rig equipment for existing rigs (\$5,328,000), drill pipe and drill collars (\$5,300,000), top drives for existing rigs (\$4,323,000) and vehicles and other equipment (\$2,056,000). Capital expenditures for 2006 totalled \$49,698,000.

During 2007, AKITA sold a 30% interest in one of its new pad style heavy oil rigs to a consortium of several of its joint venture partners. Proceeds from the sale were \$4,500,000. In addition, AKITA received \$2,500,000 for some underutilized land as well as \$443,000 in proceeds from sales of rigs or other assets.

AKITA's net book values for rigs and related equipment were significantly lower than current replacement costs. At year-end, the average net book value of AKITA's drilling rig fleet was \$3.9 million per net drilling rig and \$0.9 million per net well servicing rig.

Management reviews its assets on an annual basis and makes a determination based upon its own knowledge of the assets to ensure each net recoverable amount (based on future net funds flows) will be achieved over remaining service lives. No adjustments were made in 2007 or 2006 to carrying values as a result of this review.

## Joint Ventures

The Company conducts certain operations in Canada's Northern Territories, Southern Canada and Alaska via joint ventures. Ownership in and results of operation from these joint ventures are recorded under the proportionate consolidation method whereby only AKITA's share of the assets, liabilities, revenue and expenses are recognized. There are no significant terms or conditions in any of the Company's joint ventures that could have a material financial statement impact.

Since 2000, AKITA has constructed seven drilling rigs under joint ventures. As part of the agreements to construct each rig, term contracts lasting four or more years each were entered into with customers. Three of the initial term contracts expired in 2005 and one expired in 2006. The remaining three initial term contracts expire in 2009, 2010 and 2011.

The following table summarizes AKITA's share of assets, liabilities, revenues and expenses related to the Company's Joint Venture operations:

(Dollars in thousands)	2007	2006
Current assets	5,842	5,281
Capital assets, net of depreciation	62,239	50,581
Current liabilities	4,257	2,135
Revenue	27,505	29,828
Expenses	22,671	24,400
Net earnings	4,834	5,428
Cash flow from operating activities	9,237	9,097
Cash flow from financing activities	—	—
Cash flow from investing activities	(8,823)	(7,594)

## Accounting Estimates

The preparation of AKITA's financial statements includes significant estimates relating to the useful lives of drilling and well service rigs. Management determines, based upon a detailed assessment of the age and quality as well as the type of wells being drilled or serviced by each rig, the likely useful remaining life for each rig. Current life estimates for new drilling rigs range from 2,000 operating days to 3,600 operating days. Current life estimates for newly rebuilt drilling rigs are 2,000 operating days. Estimated service lives for well service rigs are 10 years. Depreciation rates have been consistent for the Company since its inception in 1993 and have not resulted in any changes in estimates for any previous period and to date.



AKITA's depreciation estimates do not have any effect on the changes to financial condition for the Company, as depreciation is a non-cash item. However, total assets and results of operations including net income could be either understated or overstated as a result of depreciation estimates that are either too high or too low. It is unlikely that any overstatement or understatement would manifest itself over a relatively short period of less than five years. However, if insufficient depreciation is charged over longer periods, a possibility exists for a significant asset write-down, particularly in periods of weak drilling and well servicing activity. Management is sensitive to this possibility and takes care to ensure capital assets are not recorded in excess of realizable values.

An additional significant estimate used in the preparation of AKITA's financial statements relates to the defined benefit pension liability for selected employees that was recorded as \$3,609,000 at December 31, 2007 (2006 - \$3,367,000). AKITA's pension liability estimates do not have any effect on the changes to financial condition for the Company, as the defined benefit pension is an unfunded non-cash item. However, total liabilities and results of operations including net income could be either understated or overstated as a result of pension estimates that are either too high or too low. AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2007, key assumptions relate to the use of a 5.25% discount rate as well as a 3% estimate for the annual rate of compensation growth.

During 2007, AKITA guaranteed bank loans made to joint venture partners totalling \$4.5 Million for a period of four years. AKITA has provided an assignment of monies on deposit totalling \$5 Million with respect to these guarantees. AKITA's security from its partners for these guarantees includes interests in specific rig assets.

### Strategic Risks and Risk Management

The drilling industry is cyclical and the business of AKITA is directly affected by fluctuations in the level of exploration and development activity carried on by its customers. Drilling activity is seasonal and, in turn, is directly affected by a variety of factors, including weather, world oil prices and North American natural gas prices, access to capital markets and government policies. Any prolonged or significant decrease in energy prices or economic activity, or adverse change in government regulation could have a significant negative impact on exploration and development drilling activity in Canada. AKITA's marketing program emphasizes the continuous development of long-term relationships with a core base of customers who maintain ongoing drilling programs during all phases of the economic cycle.

In addition to the management of strategic risks included above, the success of AKITA also depends on other factors, including competition due to increased capacity in the Canadian fleet as well as technological advances in drilling methods and rig designs and the management of operational, reporting and compliance risks.

AKITA manages its risks in these areas by:

- developing an annual strategic business plan and budget to help determine the levels of capital and operating expenditures
- maintaining a low cost structure for the Company, including limited use of financial leverage
- obtaining multi-year rig contracts whenever possible, but particularly when associated with the construction of new rigs
- maintaining an efficient fleet of rigs through a rigorous ongoing maintenance program
- constantly upgrading its rig fleet
- employing well trained, experienced and responsible employees
- ensuring that all employees comply with clearly defined safety standards
- improving the skills of its employees through training programs
- maintaining effective systems of internal control to safeguard assets and ensure timely and accurate reporting of financial results
- maintaining comprehensive insurance policies with respect to its operations
- reducing environmental risk through the implementation of industry-leading standards, policies and procedures

AKITA is subject to federal, provincial, territorial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters and the handling, use, emission and disposal of materials and wastes from operating drilling rigs.

AKITA is committed to preserving and protecting the environment and minimizing the discharge of hazardous materials into the environment in accordance with environmental protection laws and regulations. AKITA verifies compliance with these laws and regulations as well as its own well developed and closely monitored internal procedures through a program of regular environmental audits. Some risk of unintentional breaches of environmental protection laws and potential liability is occasionally inherent in particular operations of the industry.

AKITA does not believe that environmental protection laws and regulations affect its operations differently from other responsible companies in the contract drilling industry. Ongoing capital and operating costs of compliance with existing laws and regulations have not been quantified but are not expected to have a material impact on the earnings or competitive position of AKITA.

AKITA maintains comprehensive insurance policies with respect to its operations in amounts that it believes are adequate and in accordance with industry standards. AKITA's liability with respect to its well-site activities is limited by provisions of its agreements with oil and gas well operators that either limit AKITA's liability or provide for indemnification of AKITA against certain risks. As a matter of policy, AKITA ensures blowout insurance has been obtained by its customers and thereby reduces its related risk.



Drilling in Northern Canada and Alaska is an important aspect of AKITA's operations. Special challenges are present in order to operate effectively in these areas. The North represents a small part of the total Canadian market, is very seasonal and in most cases depends upon frozen conditions and ice. Local businesses, communities and land corporations play a major role in the infrastructure of the North through aboriginal land claim settlements and access agreements. AKITA manages its risks in this region by adding new rigs only on a multi-year contract basis and by working co-operatively in joint ventures with aboriginal partners with both partners sharing rig ownership.

## Future Outlook

The drilling industry is cyclical and certain key factors that have an impact on AKITA's results are beyond management's control. Like other drilling contractors, AKITA is exposed to the effects of fluctuating oil and gas prices and changes in the exploration and development budgets of its customers.

AKITA's prospects appear to be less positive in the short-term, compared to the results generated in 2007. The CAODC currently forecasts drilling 13,735 wells in 2008 compared to 19,144 wells in 2007. If accurate, this would represent the fewest wells drilled in Canada since 1999. Year-to-date activity levels for 2008 are behind last year's levels. Management does not anticipate a significant improvement in market conditions until the price of natural gas is sustained at a higher level. AKITA remains well positioned for any turnaround in drilling activity as a result of higher natural gas prices due to its significant number of both shallow and deep capacity rigs.

During 2003, the Company entered into a long-term contract with a large corporation for which the Company constructed a drilling rig. The rig use contract, which originally provided for 1,000 operating days over a maximum of four years, has been renegotiated and extended to include a fifth year.

During 2005 and 2006, the Company entered into two multi-year contracts through one of its joint ventures with large corporations for which the Company constructed two drilling rigs to be used on the North Slope of Alaska.

During 2007, the Company commenced a long-term contract with a private corporation to provide drilling services with one of its new heavy oil pad rigs. This contract has an initial term of four years.

The Company is continuing to evaluate its strategic alternatives regarding its well servicing business.

Longer term, the Company is well positioned in terms of drilling potential for shallow and deep natural gas, heavy and conventional oil and to take advantage of any increasing activity in Northern Canada and Alaska. AKITA's strategy over the past years has been to develop equipment and key relationships to effectively penetrate these specific market opportunities.

AKITA is continuing to pursue opportunities, particularly in its focus areas of the North, heavy oil and coal bed methane drilling.

## Disclosure Controls and Internal Controls over Financial Reporting

The Company's management evaluates annually the effectiveness of the design and operation of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation is performed under the supervision of, and with the participation of, the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer.

Disclosure Controls are procedures designed to ensure that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company's management, including the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, including the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, does not expect that the Company's Disclosure Controls will prevent or detect all errors or all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error within the Company, if any, have been detected.

Based on the evaluation of Disclosure Controls, the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded that, subject to the inherent limitations noted above, the Company's Disclosure Controls are effective in ensuring that material information relating to the Company is made known to the Company's management on a timely basis by others within those entities, and is included as appropriate in this MD&A.

Management of the Company is responsible for the design of internal control over financial reporting ("Internal Control Over Financial Reporting"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation is performed under the supervision of, and with the participation of the Chief Executive Officer and the Vice President, Finance and Chief Financial Officer. The Company's Internal Control Over Financial Reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal Control Over Financial Reporting, no matter how well designed, has inherent limitations. Therefore, Internal Control Over Financial Reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

There were no changes in the Company's Internal Controls Over Financial Reporting that have occurred during the year, including the three months ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's Internal Control Over Financial Reporting.



## Forward-Looking Statements

From time to time AKITA makes forward-looking statements. These statements include but are not limited to comments with respect to AKITA's objectives and strategies, financial condition, results of operations, the outlook for industry and risk management discussions.

By their nature, these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that the predictions and other forward-looking statements will not be achieved. Readers of this MD&A are cautioned not to place undue reliance on these statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements may be influenced by the following factors: the level of exploration and development activity carried on by AKITA's customers; world oil prices and North American natural gas prices; weather; access to capital markets and government policies. We caution that the foregoing list of factors is not exhaustive and that while relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors as well as other uncertainties and events.

## Other Information

Additional information is provided by the Company in its Annual Information Form, Notice of Annual Meeting and Information Circular all dated March 20, 2008. Copies of this information including additional copies of the Annual Report for the year ended December 31, 2007 may be obtained upon request from the Vice President, Finance and Chief Financial Officer of the Company at 900, 311 – 6th Avenue S.W., Calgary, Alberta, T2P 3H2 or at [www.sedar.com](http://www.sedar.com).

# Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of AKITA Drilling Ltd., Management's Discussion and Analysis and other information relating to AKITA contained in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with accounting policies detailed in the notes to the consolidated financial statements and are in conformity with accounting principles generally accepted in Canada using methods appropriate for the industry in which the Company operates. Where necessary, management made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements including estimates related to transactions and operations that were incomplete at year-end, the useful lives of drilling rigs and other assets, the measurement of the defined pension liability and assumptions around future income tax calculations. Financial information throughout this Annual Report is consistent with the consolidated financial statements.

Management ensures the integrity of the consolidated financial statements by maintaining a system of internal control. This system of internal control is based on the control criteria framework of the Committee of Sponsoring Organizations of the Treadway Commission published in their report titled, Internal Control – Integrated Framework. The system is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded; that assets are safeguarded; and that accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with accounting principles generally accepted in Canada. The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports is disclosed, processed and summarized and reported within specified time periods. Internal controls are monitored through self-assessments and are reinforced through a Code of Business Conduct, which sets forth the Company's commitment to conduct business with integrity, and within both the letter and the spirit of the law.

PricewaterhouseCoopers LLP, the Company's independent auditors, have conducted an examination of the consolidated financial statements and have had full access to the Audit Committee. Their report appears on page 32.

The Board of Directors, through its Audit Committee comprised of three independent directors as defined in multilateral instrument 52-110 – Audit Committees ("MI 52-110"), and one director who is exempt from the independence requirements of MI 52-110, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditors to discuss auditing and financial matters and to gain assurance that management is carrying out its responsibilities.



John B. Hlavka  
Chief Executive Officer



Murray J. Roth  
Vice President, Finance and Chief Financial Officer



# Auditor's Report

## To the Shareholders of AKITA Drilling Ltd.

We have audited the consolidated balance sheets of AKITA Drilling Ltd. as at December 31, 2007 and 2006 and the consolidated statements of earnings, comprehensive income and retained earnings and cash flows for each of the years in the two year period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Calgary, Alberta

March 20, 2008

# Consolidated Balance Sheets

December 31 (Dollars in thousands)		2007	2006
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$ 43,166	\$ 49,927
Accounts receivable		22,505	38,529
Other		272	206
		65,943	88,662
Restricted Cash	Note 14	5,000	—
Capital Assets	Note 2	152,579	133,575
		\$ 223,522	\$ 222,237
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$ 13,051	\$ 24,772
Dividends payable		1,279	1,285
Income taxes payable		873	5,924
Deferred revenue		1,617	—
		16,820	31,981
Future income taxes	Note 9	15,055	14,016
Pension liability	Note 5	3,609	3,367
<b>Class A and Class B Shareholder's Equity</b>			
Class A and Class B shares	Note 6	23,369	23,440
Contributed surplus		1,110	652
Retained earnings		163,559	148,781
		188,038	172,873
		\$ 223,522	\$ 222,237

Approved by the Board



Director



Director



# Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings

December 31 (Dollars in thousands, except per share)		2007	2006
<b>Revenue</b>		<b>\$ 142,945</b>	<b>\$ 174,543</b>
<b>Costs and Expenses</b>			
Operating and maintenance		<b>85,108</b>	99,970
Depreciation		<b>15,403</b>	14,211
Selling and administrative		<b>15,774</b>	15,187
		<b>116,285</b>	129,368
Operating Income		<b>26,660</b>	45,175
<b>Other income (expense)</b>			
Interest income		<b>1,392</b>	1,937
Gain on sale of joint venture interests in rigs and other assets		<b>902</b>	1,057
Gain (loss) on foreign currency translation		<b>(814)</b>	(40)
		<b>1,480</b>	2,954
<b>Earnings before income taxes</b>		<b>28,140</b>	48,129
<b>Income Taxes</b>			
Current		<b>6,349</b>	14,558
Future		<b>1,039</b>	(184)
	Note 9	<b>7,388</b>	14,374
<b>Net Earnings and Comprehensive Income</b>	Note 11	<b>20,752</b>	33,755
Retained earnings, beginning of year		<b>148,781</b>	124,343
Dividends declared		<b>(5,117)</b>	(4,613)
Adjustment on repurchase and cancellation of share capital	Note 6	<b>(857)</b>	(4,704)
<b>Retained Earnings, End of Year</b>		<b>\$ 163,559</b>	<b>\$ 148,781</b>
<b>Earnings per Class A and Class B share</b>	Note 7		
Basic		<b>\$ 1.14</b>	\$ 1.83
Diluted		<b>\$ 1.13</b>	\$ 1.81

# Consolidated Statements of Cash Flow

Year ended December 31 (Dollars in thousands)	2007	2006
<b>Operating Activities</b>		
Net earnings	\$ 20,752	\$ 33,755
Non-cash items included in earnings		
Depreciation	15,403	14,211
Future income taxes	1,039	(184)
Expense for defined benefit pension plan	242	265
Stock options charged to expense	458	169
Gain on sale of joint venture interests in rigs and other assets	(902)	(1,017)
Funds flow from operations	36,992	47,199
Change in non-cash working capital	1,884	13,953
	<b>38,876</b>	<b>61,152</b>
<b>Investing Activities</b>		
Capital expenditures	(40,948)	(49,698)
Proceeds on sales of joint venture interests in rigs and other assets	7,443	9,043
Cash restricted for loan guarantees	(5,000)	—
Reduction in investments	—	55
Change in non-cash working capital	(1,081)	514
	<b>(39,586)</b>	<b>(40,086)</b>
<b>Financing Activities</b>		
Dividends paid	(5,117)	(4,448)
Repurchase of share capital	(928)	(5,009)
Increase (decrease) in bank indebtedness	—	(4,400)
Proceeds received on exercise of stock options	—	205
Change in non-cash working capital	(6)	(172)
	<b>(6,051)</b>	<b>(13,824)</b>
<b>Increase (Decrease) in Cash</b>	<b>(6,761)</b>	<b>7,242</b>
Cash position, beginning of year	49,927	42,685
<b>Cash Position, End of Year</b>	<b>\$ 43,166</b>	<b>\$ 49,927</b>
Interest paid during the year	\$ 376	\$ 72
Income taxes paid during the year	\$ 11,400	\$ 14,495



# Notes to Consolidated Financial Statements

December 31, 2007

## Summary of Significant Accounting Policies

### Financial statement presentation

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of AKITA Drilling Ltd., its subsidiaries and a proportionate share of its joint venture entities (consisting of drilling and well service rigs).

### Revenue recognition on contracts

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. On daywork contracts, work in progress is measured based upon the passage of time. The receipt of unearned contract revenue is recorded as deferred revenue until the contracted passage of time has occurred.

Any anticipated loss is provided for in its entirety when the estimated loss is identified.

### Depreciation

Drilling rigs are depreciated using the units of production method based on an initial estimated life of 2,000 or 3,600 operating days per rig depending upon the relative amount of moving required, the age of the equipment when acquired by AKITA as well as other factors that may result in different rates of wear and tear. Drilling rigs are subject to certain minimum annual depreciation. Well service rigs are depreciated using a straight-line basis at 10% per annum.

Replacement drill pipe and other ancillary drilling equipment are depreciated using a straight-line basis at rates varying from 6% to 12.5% per annum.

Buildings, furniture, fixtures and equipment are depreciated using the declining balance method at rates varying from 4% to 25% per annum except drilling camps, which are depreciated using a straight-line basis over 10 years.

### Stock based compensation plans

The Company has two stock-based compensation plans, which are described in Note 8. The Company records compensation expense and contributed surplus, based on the estimated fair value, over the vesting period for stock options granted in 2003 and subsequent years. Any consideration paid by employees on exercise of stock options is credited to share capital along with the related contributed surplus. No compensation expense has been recorded for awards granted prior to 2003. During 2006, the Canadian Institute of Chartered Accountants issued EIC 162 "Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date" which was adopted by the Company but had no material effect on the financial statements for the Company.

Compensation expense for share appreciation rights is accrued monthly based upon the excess of underlying month-end share price over the base value of the rights. The accrued liability is adjusted for the effect of changes in the underlying share price through charges or credits to compensation expense.

## **Income Taxes**

The Company records income taxes using the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using tax rates that are enacted or substantively enacted to be in effect when the differences are expected to reverse. The effect of a change in tax rates is recognized in income in the period that the change becomes substantively enacted.

## **Employee Future Benefits**

The Company accrues for its obligations under its defined benefit pension plan. Costs of these benefits are determined using the projected benefits method prorated on service and reflect management's best estimates of wage and salary increases and age at retirement. Any unrecognized amounts resulting from experience gains or losses or changes in actuarial assumptions in excess of 10% of the actuarial present value of retirement benefits are amortized over the expected remaining service lifetime of each individual on a straight-line basis.

Employer contributions to the defined contribution pension plan and group Registered Retirement Savings Plan ("RRSP") are expensed as incurred.

## **Per Share Data**

Basic earnings per share have been calculated on the basis of the weighted average number of Class A Non-Voting and Class B Common shares outstanding during the year. Diluted earnings per share have been calculated using the treasury stock method. Under the treasury stock method, the dilutive effects of all potentially dilutive instruments are included in the weighted average number of shares. It is also assumed that no cash flow or income is earned on the proceeds received from the dilutive shares issued, but rather, the proceeds are used to buy back shares at the weighted average market price experienced during the year. The weighted average number of shares is then reduced by the number of shares acquired.

## **Joint Ventures**

The Company conducts most of its operations in Canada's Northern Territories, Alaska and certain of its activities in Southern Canada through joint ventures. Ownership in and results of operations from these joint ventures are recorded under the proportionate consolidation method whereby only the Company's share of the assets, liabilities, revenue and expenses are recognized.

## **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash and highly liquid short-term investments.

## **Financial Instruments and Credit Risk**

The Company's financial assets and liabilities include cash and cash equivalents, restricted cash, accounts receivable and accounts payable. During the year, the Company did not hold or issue any derivative financial instruments. Fair values approximate carrying values unless otherwise stated. The Company has adopted the following classification for financial assets and liabilities:



- Cash equivalents and restricted cash are classified as “Held to Maturity”
- Accounts receivable are classified as “Loans and Receivables”
- Accounts payable and accrued liabilities are classified as “Other Financial Liabilities”.

The credit risk associated with accounts receivable is generally considered to be low since substantially all counter parties are well established and financed oil and gas companies. Provisions have been estimated by management and included in the accounts to recognize potential bad debts.

## Translation of Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Foreign currency income and expenses are translated at average exchange rates prevailing throughout the year. Unrealized translation gains and losses and all realized gains and losses are included in Other Income.

## Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements as well as the reported amounts for revenue and expenses during the year. Significant estimates used in the preparation of these financial statements include estimates relating to transactions and operations that were incomplete at year-end, the useful lives of drilling rigs and other assets, projections of the drilling rig’s undiscounted future cash flows for use in assessing rig asset impairment conditions, the measurement of the defined pension liability and assumptions around future income tax calculations.

### Equipment

(Dollars in thousands)

	2007		2006	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Drilling and well service rigs and related equipment	\$ 247,477	\$ 101,441	\$ 212,645	\$ 87,071
Other	9,680	3,137	10,695	2,694
	<b>\$ 257,157</b>	<b>\$ 104,578</b>	\$ 223,340	\$ 89,765
Net Book Value	<b>\$ 152,579</b>		\$ 133,575	

### Debt Line

The Company has a credit line totalling the lesser of \$10,000,000 or 80% of accounts receivable at bank prime secured by a general assignment of accounts receivable. This line was not drawn upon at December 31, 2007 or at December 31, 2006.

#### 4. Long Term Debt

The Company has a renewable borrowing facility of up to \$20,000,000 bearing interest at bank prime. To date, the Company has not drawn upon this facility. Security for this facility consists of a general security agreement providing for a fixed charge on certain assets, promissory notes and an assignment of insurance proceeds on certain capital assets.

#### 5. Pension Liability

The Company has a defined contribution pension plan that covers substantially all of its employees. Under the provisions of the plan, the Company contributes 5% of regular earnings for eligible employees on a current basis. In addition, employees having eligible terms of service are subject to admission into the group RRSP.

The Company has also established a defined benefit pension plan for selected employees. The defined benefit plan, which provides for pensions based upon the age of the retiree at the date of retirement and, in certain cases, the final average earnings, is non-contributory and unfunded.

No current service cost was incurred in either 2007 or 2006.

(Dollars in thousands)	2007	2006
Accrued benefit obligation as at January 1	\$ 3,367	\$ 3,102
Interest cost	204	205
Benefits paid	(15)	(11)
Actuarial (gain) loss	53	71
Accrued benefit obligation as at December 31	3,609	3,367
Unamortized net losses	203	484
Unamortized transitional obligation	201	232
Actuarial present value of defined benefit obligation	\$ 4,013	\$ 4,083

Assumptions (per cent)	2007	2006
Discount Rate	5.25	5.0
Rate of compensation growth	3.0	3.0

The Company obtains an annual actuarial valuation subsequent to each year-end from an independent actuary. The most recent evaluation was dated January 21, 2008 and was utilized in measuring the December 31, 2007 and 2006 year-end balances as well as related activities during each of these respective years.

During the year, the Company charged \$3,828,000 to expense in respect of its defined contribution pension plan (2006 - \$3,890,000) and \$242,000 to expense in respect of its defined benefit pension plan (2006 - \$265,000).



## Non-Voting and Class B Common Shares

### Authorized

- An unlimited number of Class A Non-Voting Shares
- An unlimited number of Class B Common Shares

### Issued

	Class A Non-Voting		Class B Common		Total	
	Number of Shares	Consideration (000's)	Number of Shares	Consideration (000's)	Number of Shares	Consideration (000's)
December 31, 2005	16,889,658	\$22,174	1,654,284	\$1,366	18,543,942	\$23,540
Stock options exercised	36,000	205	—	—	36,000	205
Shares repurchased	(257,400)	(305)	—	—	(257,400)	(305)
December 31, 2006	16,668,258	\$22,074	1,654,284	\$1,366	18,322,542	\$23,440
Shares repurchased	(55,300)	(71)	—	—	(55,300)	(71)
<b>December 31, 2007</b>	<b>16,612,958</b>	<b>\$22,003</b>	<b>1,654,284</b>	<b>\$1,366</b>	<b>18,267,242</b>	<b>\$23,369</b>

Each Class B Common share may be converted into one Class A Non-Voting share at the shareholder's option. If a takeover bid is made for the Class B Common shares, holders of Class A Non-Voting shares are entitled, in certain circumstances, for the duration of the bid, to exchange each Class A Non-Voting share for one Class B Common share for the purpose of depositing the resulting Class B Common shares pursuant to the terms of the takeover bid. The two classes of shares rank equally in all other respects.

For substantially all of 2006 and 2007, the Company had outstanding normal course issuer bids for the purchase of up to 3% of the outstanding Class A Non-Voting shares. In 2006, 257,400 shares were repurchased and cancelled under normal course issuer bids at a cost of \$5,009,000 of which \$305,000 was charged to share capital and \$4,704,000 to retained earnings. In 2007, 55,300 shares were repurchased and cancelled under the aforementioned bids at a cost of \$928,000 of which \$71,000 was charged to share capital and \$857,000 to retained earnings. The most recent offer will expire on June 14, 2008.

## Selected Data

	2007	2006
Net earnings (Dollars in thousands)	<b>\$ 20,752</b>	\$ 33,755
Weighted average outstanding shares	<b>18,275,846</b>	18,491,237
Incremental shares	<b>85,289</b>	109,095
Basic earnings per share (\$)	<b>\$ 1.14</b>	\$ 1.83
Diluted earnings per share (\$)	<b>\$ 1.13</b>	\$ 1.81

## Stock-Based Compensation Plans

At December 31, 2007, the Company had two stock-based compensation plans, which are described below.

The Company's Corporate Governance, Nomination, Compensation and Succession Committee, subject to the approval of the Company's Board of Directors, may designate directors, officers, employees and other persons providing services to the Company to be offered options to purchase Class A Non-Voting shares. A maximum of 1,700,000 Class A Non-Voting shares have been reserved for issuance pursuant to outstanding options. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the date of grant.

In addition to stock options, share appreciation rights (SARs) may be granted to directors, officers and key employees of the Company. The vesting provisions (which range from three to eight years) and exercise period (which cannot exceed 10 years) are determined at the time of grant. The holder is entitled on exercise to receive a cash payment from the Company equal to any increase in the market price of the Class A Non-Voting shares over the base value of the SAR exercised. The base value is equal to the closing price of the Class A Non-Voting shares on the day before the grant.

A summary of the status of the Company's stock based compensation plans as of December 31, 2007 and 2006, and changes during the years ended on those dates is presented below:

	2007		2006	
	Options or SARs	Weighted Average Exercise Price (\$)	Options or SARs	Weighted Average Exercise Price (\$)
Outstanding at beginning of year (options and SARs)	451,000	13.85	268,000	7.44
Granted	—	—	229,000	22.44
Exercised	(40,000)	4.49	(36,000)	5.54
Expired	—	—	(10,000)	9.94
Outstanding at end of year (options and SARs)	411,000	16.19	451,000	13.85
Options exercisable at year-end	213,900	11.99	152,500	15.25
SARs exercisable at year-end	—	—	40,000	4.49

The following table summarizes information about stock based compensation plans at December 31, 2007:

Nature of Compensation	Exercise Price (\$)	Number Outstanding	Remaining Contractual Life (years)	Number Exercisable
Options	3.695	4,000	1.1	4,000
Options	4.295	4,000	2.0	4,000
Options	5.400	58,000	3.0	58,000
Options	8.405	2,000	4.6	2,000
Options	9.940	108,000	5.2	81,200
Options	13.490	6,000	7.0	6,000
Options	22.250	44,000	8.4	19,200
Options	22.480	185,000	8.6	39,500

Share appreciation rights expense for the year ended December 31, 2007 amounted to \$Nil (2006 - \$285,000), and was included in selling and administrative expense.

During 2007, the Company recorded compensation expense and a corresponding increase to contributed surplus of \$458,000 for options granted since 2003 (2006 - \$169,000). Compensation expense was determined using the Black-Scholes Model based on the following assumptions:



Risk free interest rate	4.34%
Expected volatility	24%
Dividends yield rate	1.15%
Weighted average expected life of options	7 years

The income tax provision differs from that which would be computed using the statutory rate. A reconciliation of the differences is as follows:

(Dollars in thousands)	2007	2006
Earnings before income taxes	\$ 28,140	\$ 48,129
Expected income tax at statutory rate of 33.68% (2006 - 33.33%)	9,478	16,039
Add (Deduct)		
Reduction in future income tax rates	(2,099)	(1,943)
Permanent differences	216	54
Large corporations tax and other	(207)	224
Income tax expense	\$ 7,388	\$ 14,374

The net future tax liability is comprised of the tax effect of the following temporary differences:

(Dollars in thousands)	2007	2006
Capital assets	\$ 58,550	\$ 48,063
Employee pension and SAR Benefits	(3,627)	(3,853)
Other	1,748	3,094
	56,671	47,304
Expected future income tax rate	26.57%	29.63%
Future income taxes at expected tax rate	\$ 15,055	\$ 14,016

The Company is related to the ATCO Group of companies and to Spruce Meadows through its majority shareholder. The accompanying table summarizes transactions and year-end balances with those affiliates. These transactions were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Each was considered to be at fair market value.

(Dollars in thousands)	2007	2006
Revenue (computer services)	\$ 34	\$ 44
Purchases		
Capital ((camp 2006 only) wellsite trailers, other)	339	3,551
Operating (sponsorship and advertising (Note 14), shared employee services, other)	652	590
Year end accounts receivable	3	4
Year end accounts payable	15	14

# 10 Year Financial Review

(Dollars in thousands, except per share)

	Annual Ranking	2007	2006	2005
<b>Summary of Operations</b>				
Revenue	3	\$ 142,945	\$ 174,543	\$ 162,110
Earnings before income taxes	6	\$ 28,140	\$ 48,129	\$ 44,770
Income taxes	8	\$ 7,388	\$ 14,374	\$ 15,506
Net earnings	4	\$ 20,752	\$ 33,755	\$ 29,264
As a percentage of average shareholder's equity	9	11.5%	21.0%	21.4%
Earnings per Class A and Class B shares	4	\$ 1.14	\$ 1.83	\$ 1.57
Funds flow from operations	3	\$ 36,992	\$ 47,199	\$ 42,421
As a percentage of average shareholder's equity	9	20.5%	29.4%	31.0%
<b>Financial position at year end</b>				
Working capital	3	\$ 49,123	\$ 56,681	\$ 59,499
Current ratio	2	3.92:1	2.77:1	2.74:1
Total assets	1	\$ 223,522	\$ 222,237	\$ 199,852
Shareholder's equity	1	\$ 188,038	\$ 172,873	\$ 148,366
per share	1	\$ 10.29	\$ 9.43	\$ 8.00
<b>Other</b>				
Capital expenditures (Net)	3	\$ 33,505	\$ 40,655	\$ 18,386
Depreciation	1	\$ 15,403	\$ 14,211	\$ 12,691



## 11. Recent Changes in Accounting Policies

Effective January 1, 2007, the Company adopted, on a prospective basis, three new accounting sections to the CICA Handbook: Section 1530, Section 3855 and Section 3861. Section 1530 "Comprehensive Income" addresses fair value accounting and reporting and display standards for comprehensive income. Section 3855 "Financial Instruments – Recognition and Measurement" addresses when financial instruments should be measured and how measurement should occur. Section 3861 "Financial Instruments – Disclosure and Presentation" provides standards for how financial instruments should be classified on the financial statements as well as related disclosure requirements. The Company has evaluated the impact of these new standards and the adoption of these recommendations did not have a significant impact on the Company's financial statements.

Effective January 1, 2007, the Company adopted the revised recommendations of CICA Section 1506, "Accounting Changes." The new recommendations permit voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings.

As of January 1, 2008, the Company will be required to adopt two new CICA Handbook Sections, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which will replace current Section 3861. The new standards require disclosure of the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments, and how those risks are managed. The new presentation standard essentially carries forward the current presentation requirements. The Company is evaluating the impact of these new standards on its consolidated financial statements and anticipates the main impact will be in terms of additional disclosures required.

As of January 1, 2008, the Company will be required to adopt CICA Handbook Section 1535 "Capital Disclosures," which requires entities to disclose their objectives, policies and processes for management of capital, and in addition, whether the entity has complied with any externally imposed capital requirements. The Company is evaluating the impact of this new standard on its consolidated financial statements and anticipates the main impact will be in terms of additional disclosures required.

As of January 1, 2008, the Company will be required to adopt CICA Handbook Section 1400 "Going Concern" which requires management to make an assessment of an entity's ability to continue as a going concern. The Company is evaluating the impact of this new standard on its consolidated financial statements and anticipates the main impact will be in terms of additional disclosures required.

## Joint Ventures

The following table summarizes the Company's share of assets, liabilities, revenues and expenses related to its joint venture operations:

(Dollars in thousands)	<b>2007</b>	2006
Current assets	<b>\$ 5,842</b>	\$ 5,281
Capital assets, net of accumulated depreciation	<b>62,239</b>	50,581
Current liabilities	<b>4,257</b>	2,135
Revenue	<b>27,505</b>	29,828
Expenses	<b>22,671</b>	24,400
Net earnings	<b>4,834</b>	5,428
Cash flow from operating activities	<b>9,237</b>	9,097
Cash flow from financing activities	<b>—</b>	—
Cash flow from investing activities	<b>(8,823)</b>	(7,594)

### 13. Significant Customers

During 2007, two customers (2006 – three customers) each provided more than 10% of the Company's total revenue. In management's assessment, the future viability of the Company is not dependent upon any of these major customers.

### 14. Commitments

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2007, the Company had nine rigs with multiyear contracts. Of these contracts, three are anticipated to expire in 2008, two in 2009, three in 2010 and the remaining contract in 2011.

During 2004 and 2006, the Company entered into two four-year contracts to provide sponsorship and advertising to a related company at a cost of \$1,492,000 including \$321,000 for 2007 (2006 - \$316,000) (Note 10).

The Company leases its office space at an annual cost of approximately \$412,000 per year. This lease expires on December 31, 2009.

During the year, the Company guaranteed loans made to joint venture partners totalling \$4.5 Million for a period of four years. The Company has provided an assignment of monies on deposit totalling \$5 Million with respect to these loans. The Company's security from its partners for these guarantees includes interests in specific rig assets.

### 15. Segmented Information

The Company operates in one business segment that includes providing oil and gas well drilling and well servicing for its customers.

(Dollars in thousands)	Domestic		Alaska		Consolidated	
	2007	2006	2007	2006	2007	2006
Revenue	<b>\$ 132,037</b>	\$ 168,740	<b>\$ 10,908</b>	\$ 5,803	<b>\$ 142,945</b>	\$ 174,543
Capital Assets at year-end	<b>\$ 131,913</b>	\$ 113,236	<b>\$ 20,666</b>	\$ 20,339	<b>\$ 152,579</b>	\$ 133,575



2004	2003	2002	2001	2000	1999	1998
\$ 135,747	\$ 124,078	\$ 102,895	\$ 110,844	\$ 88,441	\$ 61,316	\$ 75,463
\$ 32,121	\$ 28,678	\$ 23,473	\$ 30,395	\$ 19,792	\$ 9,194	\$ 19,762
\$ 11,246	\$ 9,856	\$ 9,128	\$ 12,506	\$ 8,635	\$ 3,983	\$ 6,855
\$ 20,875	\$ 18,822	\$ 14,345	\$ 17,889	\$ 11,157	\$ 5,211	\$ 12,907
18.3%	19.4%	16.7%	25.8%	18.0%	9.0%	24.0%
\$ 1.15	\$ 1.04	\$ 0.79	\$ 0.99	\$ 0.62	\$ 0.28	\$ 0.68
\$ 33,947	\$ 30,426	\$ 27,459	\$ 26,959	\$ 17,110	\$ 10,894	\$17,914
29.7%	31.3%	32.0%	38.9%	27.6%	18.5%	33.3%
\$ 40,414	\$ 24,319	\$ 26,551	\$ 19,823	\$ 17,227	\$ 30,368	\$ 30,481
2.83:1	1.82:1	2.52:1	1.77:1	2.07:1	3.67:1	4.16:1
\$ 162,957	\$ 150,901	\$ 133,901	\$ 145,859	\$ 85,529	\$ 73,463	\$ 70,032
\$ 124,926	\$ 103,590	\$ 90,947	\$ 80,472	\$ 65,624	\$ 58,170	\$ 58,190
\$ 6.70	\$ 5.74	\$ 4.97	\$ 4.42	\$ 3.62	\$ 3.18	\$ 3.07
\$ 15,308	\$ 16,122	\$ (2,061)	\$ 54,319	\$ 26,548	\$ 7,670	\$ 7,832
\$ 11,263	\$ 9,432	\$ 8,819	\$ 7,763	\$ 6,551	\$ 5,627	\$ 5,022

# Corporate Information

## Directors

William L. Britton, Q.C.  
Vice Chairman of the Board, ATCO Ltd.  
and Canadian Utilities Limited  
Calgary, Alberta

Loraine M. Charlton  
Corporate Director  
Calgary, Alberta

Arthur C. Eastly  
Corporate Director  
Calgary, Alberta

Linda A. Heathcott  
President, Spruce Meadows,  
President, Team Spruce Meadows Inc.  
Chairman of the Board  
of the Company  
Calgary, Alberta

John B. Hlavka  
Chief Executive Officer  
of the Company  
Calgary, Alberta

William R. Horton  
Corporate Director  
Winfield, British Columbia

Dale R. Richardson  
Vice President,  
Sentgraf Enterprises Ltd.  
Calgary, Alberta

Margaret E. Southern,  
O.C., L.V.O., LL.D.  
Chairman, Spruce Meadows  
Calgary, Alberta

Nancy C. Southern  
President and Chief Executive Officer,  
ATCO Ltd. and Canadian Utilities  
Limited  
Calgary, Alberta

Ronald D. Southern,  
C.C., C.B.E., B.Sc., LL.D.  
Chairman, ATCO Ltd. and  
Canadian Utilities Limited,  
Deputy Chairman of the Board of the  
Company  
Calgary, Alberta

C. Perry Spitznagel  
Vice Chairman and Managing Partner  
(Calgary), Bennett Jones LLP  
Calgary, Alberta

Charles W. Wilson  
Corporate Director  
Evergreen, Colorado

## Officers

John B. Hlavka  
Chief Executive Officer

Fred O. Hensel  
Vice President, Marketing for the  
South

Lou C. Klaver  
Vice President, Engineering

Craig W. Kushner  
Corporate Secretary and Human  
Resources Administrator

John M. Pahl  
Vice President, Marketing for the  
North

Murray J. Roth  
Vice President, Finance and Chief  
Financial Officer

Karl A. Ruud  
President and Chief Operating Officer

## Head Office

AKITA Drilling Ltd.,  
900, 311 – 6th Avenue S.W.,  
Calgary, Alberta T2P 3H2  
(403)292-7979

## Banker

Alberta Treasury Branches  
Calgary, Alberta

## Counsel

Bennett Jones LLP  
Calgary, Alberta

## Auditors

PricewaterhouseCoopers LLP  
Calgary, Alberta

## Registrar and Transfer Agent

CIBC Mellon Trust Company  
Calgary, Alberta and Toronto, Ontario  
1-800-387-0825

## Share Symbol / TSX

Class A Non-Voting (AKT.A)  
Class B Common (AKT.B)

## Website

[www.akita-drilling.com](http://www.akita-drilling.com)





**HEAD OFFICE**  
AKITA Drilling Ltd.,  
900, 311 - 6<sup>th</sup> Avenue S.W.,  
Calgary, Alberta T2P 3H2  
[www.akita-drilling.com](http://www.akita-drilling.com)